FEDERAL CROP INSURANCE - A DESCRIPTION

Introductory Description

Federal crop insurance is a type of insurance not available from private insurance companies that is offered by the Federal Crop Insurance Corporation, an agency of the United States Department of Agriculture. This insurance covers essentially all natural causes of loss, including drought, flood, hail, wind, frost, winter-kill, lightning, fire, excessive rain, snow, wildlife, hurricane, tornado, insect infestation, plant diseases, and such other unavoidable causes as may be determined by the Board of Directors. It does not cover such causes of loss as neglect, poor farming practices, theft; nor does it cover the risk of financial loss due to low prices. Citrus insurance covers only a few causes of loss.

The insurance is voluntary and the farmer pays a premium for this insurance. The premiums are required to be set at a level believed adequate to cover losses and to provide a reserve against unforeseen losses. Operating costs have been borne by the Government through annual appropriations; this cost has not been included in the premiums farmers pay. The Appropriation Act for the year beginning July 1, 1954, authorized the charging of the direct costs of loss adjusters for crop inspections and loss adjustments against premium income. Such costs will be treated in the same manner as the cost of the indemnities for crop losses. It is not possible herein to describe the rate of premium the farmers have to pay because this varies widely by areas depending on (1) the crop insured, (2) the risk of the area, and (3) the amount of insurance per acre.

Federal crop insurance is not available in all counties and in most of the counties where it is available, it is available only on one crop. In 1954 one or more kinds of insurance was in effect in 803 counties out of about 3,000 agricultural counties in the country. The reason that this insurance is not available to all farmers on all crops is that it is still in an experimental or developing stage. Some of the insurance is even now in the early stages of experimentation as for example the citrus insurance, whereas insurance of wheat which was started first may be considered as in the more advanced stage of development. In these counties more than a third of a million producers are insured.

January 1954 - Revised October 1954.
Prepared by W. H. Rowe, FCIC

The status of Federal Crop Insurance on 1954 crops is as follows:

Crop	Number of Counties	Number of Insured Producers
Wheat	402	135,697
Cotton	101	33,224
Corn	99	32,673
Tobacco	107	95,403
Flax	53	23,451
Beans	24	6,352
Citrus Fruit	2	394
Multiple Crop Insurance	96 1/	41,042
	884 2/	368,236

1/ Multiple Crop Insurance is a type of insurance whereby a number of crops are insured under the same contract.

2/ There are 803 counties with insurance. The total of 884 includes duplication where there is more than one kind of insurance in the county.

Roughly, insurance of a crop is effected by guaranteeing the farmer a certain amount of production and if the production amounts to less than that, he is indemnified for the shortage. At this point, it is not possible to describe the insurance completely nor the different types of insurance but for a first approach and with many exceptions, the following illustration is given for the most widely used type.

Assume that a farmer has 100 acres of wheat and that he is insured for 10 bushels per acre. Assume also that the price of wheat fixed for insurance purposes in advance of the season is $2.00 per bushel. The amount of insurance on 100 acres would be 1,000 bushels. Assume that the farmer harvested all the acreage and produced only 400 bushels. The production would be short 600 bushels from the amount guaranteed and at $2.00 per bushel this would mean that he would be indemnified for $1,200. The same thing can be expressed in dollars. The coverage would be $2,000 -- the equivalent of 1,000 bushels at $2.00 per bushel. The production of 400 bushels would be worth $800 at the fixed price of $2.00 per bushel. The indemnity would be $2,000 less $800, or $1,200.

The above explanation is given both in bushels and dollars because under some insurance contracts, computations are made in bushels, whereas in other contracts for various reasons, the computations are made in dollars. Essentially, there is no difference in the two methods.

The above illustration is extremely brief and simplified; it will be explained more fully in later sections and deviations from the above will be explained.

LEGISLATIVE BASIS

The original Act was passed by Congress and was approved February 1938 and is known as the Federal Crop Insurance Act. It provided for insurance on wheat only. This Act was amended in 1941 to include cotton. Insurance was suspended for 1944 by appropriation legislation but reinstated for 1945 on the basis of an amendment to the Federal Crop Insurance Act, adding flax and providing authority for experimenting with insurance on other commodities. After loss of considerable capital in the early years, the Act was amended again in 1947 and the program was reduced in scope to an experimental basis. In 1949 the legislation was amended again, setting up for a four-year period a gradual basis for expansion. In 1953 provision was made for continued expansion.

The legislation establishes the Corporation as an agency of and within the United States Department of Agriculture and provides for a Board of Directors appointed by the Secretary of Agriculture, composed of the Manager of the Corporation, two other employees of the Department of Agriculture, and two persons experienced in the insurance business who are not otherwise employed by the Government. The Act also authorizes the capital for the Corporation intended to serve as a revolving fund and sets up the basis for the insuring of crops. The operating organization was set up as a Corporation so that it might operate somewhat as a private insurance company.

ADMINISTRATIVE ORGANIZATION

The Secretary of Agriculture is responsible for the administration of the program through the Board of Directors appointed by him, and a Manager. Currently, the Board of Directors is made up of an Assistant Secretary of Agriculture, the Manager of the Corporation, the Administrator of the Commodity Stabilization Service, and an individual experienced in the field of mutual insurance and another experienced in the field of private stock company insurance.

The Board of Directors determines overall policies and approves the terms and conditions of the insurance contracts offered.

The Manager of the Corporation is the executive head of the Corporation. The headquarters office is in the Department of Agriculture in Washington, a branch office is in Chicago, and there are state crop insurance offices for individual states or groups of states.

The headquarters office consists of the Office of the Manager and five Divisions -- Underwriting, Sales and Servicing, Claims, Finance, and Administrative. Four area directors stationed in the field are responsible for directing and coordinating activities in their areas. The functions of the headquarters office are primarily the determination

of policy, the planning and development of the insurance, the establishment of the coverage and premium levels at which it is sold, and the supervision and coordination of activities.

Actual insurance contracts are not processed through the headquarters office. The branch office in Chicago is the central office for insurance contract records, their examination, the computing of premiums and billing of insureds, receiving premiums, computing and paying indemnities, maintaining program accounting records, and summarizing statistical data for general and actuarial purposes.

There are 20 state offices. While these are called "state offices" some serve two or more states, especially in the case of states where the insurance volume is not large. A state director is in charge of the insurance in this state or group of states and has one or more district supervisors as assistants. He has charge of the insurance operations in his area including the selection and supervision of insurance agents and the selection and supervision of loss adjusters. He operates under the direct supervision of one of the area directors.

Generally, in each county there is an insurance agent. His function is to sell the insurance and to service it, such as obtaining acreage reports, collecting premiums, and receiving notices of loss. He is paid on a commission basis. His office is known as the "county office." It is the local contact point for the farmer, a place where the farmer can obtain information, buy crop insurance, report his acreage, pay his premium, and report losses. The agent may have insurance salesmen and others working for him. Previously these functions were performed by the county committees and county offices of the former Production and Marketing Administration of the U. S. Department of Agriculture. The changeover became fully effective at the beginning of 1954.

The other direct contact with the farmer is the adjuster who is responsible not to the agent but to the state director. He is a part-time employee of the Corporation working only when needed. In some cases he may be a local person working principally in his home county or he may be from outside the county. He is a farmer or one who has previously been engaged in farming. Upon notice of damage or loss given to the Corporation by the insured, he inspects the crop, may release some acreage and adjusts the loss after harvest.

HOW IT WORKS FOR THE FARMER

As an example, let us assume that a farmer lives in a county where wheat crop insurance is available. A sales agent for crop insurance may discuss it with him or this farmer may have heard of the insurance and have asked about it at his county office. If he decides to take the insurance he must make an application for it in writing on a special form. This application for insurance must be submitted before a "closing date" which is usually a short time before planting of the crop generally begins in the county. After the first year that he takes wheat crop

insurance, he will not have to apply for it again because his insurance contract will continue in force from year to year unless either he or the Corporation decides to cancel it.

In deciding whether or not he wants to take the insurance he will want to know how much protection it will give him and how much it will cost. This information on a per acre basis is available from the salesman and the official record is available in the county office.

His application for insurance covers all of the wheat in the county in which he will have a share in the crop. He cannot obtain insurance on one farm, for example, and not have it also on his other f rms. His application will also contain a promissory note for the premium each year. At the time he makes his application, it is not usually possible to know the exact amount of that premium because he may not know the location nor the exact amount of acreage that he will plant. His request for insurance is reviewed in the county and in the state office and if he is satisfactory, the application is accepted and he then has an insurance contract. He receives an insurance policy setting forth the terms of the insurance contract.

After he has completed planting of his crop he reports the location and amount of acreage that he has planted as well as his share in the crop. This is most frequently done by a visit to the county office although sometimes it is done by mail and sometimes the information is given to a representative who visits the farm. These data provide the basis for determining the amount of premium that he is obligated to pay. He may pay this premium immediately or delay payment until after harvest. Any balance of premiums unpaid by a fixed date (sometime after usual harvest-time) will be increased by 10 percent.

The farmer is expected to plant his crop and take care of it in a good workmanlike manner as his contract does not cover losses resulting from negligence and poor farming practices. If his crop is damaged so that it is probable that there will be a loss and it is too late to replant it, he must give notice of that fact promptly to his county office. Upon receipt of this notice, his crop may be inspected and definitely will be inspected if he also indicates that the crop on all or part of acreage is so badly damaged that he wants to abandon the crop and put the land to other use, possibly to plant some other crop as a substitute. He cannot without penalty destroy his wheat crop and plant his substitute crop, however, until the inspection has been made and approval given. If any of the acreage remains for harvest the loss cannot be settled until after harvest, and he is advised to report again about his loss after he has had a chance to harvest the crop and find out more about the production from it.

Most reports of loss are submitted after harvest. The insured farmer is required to keep a record of his production or to keep his production on the farm so that the loss may be determined. An insurance adjuster

will visit the farm, measure the wheat that may be stored on the farm obtain information with respect to the amount that has been sold or otherwise disposed of and verify it to his satisfaction. He will inspect the fields where the crop was grown and also determine the acreage. The insured farmer will normally submit a claim for indemnity based on these findings and if the claim is approved, he will receive a check for the amount of his indemnity.

Thus if a farmer is insured he does not have any difficult process to follow under his contract. He has to farm, of course, in a workmanlike manner, to report his acreage, to pay his premium, to give notice of damage or loss promptly, and to retain evidence of his production.

PURPOSE OF CROP INSURANCE

Before proceeding further into the methods of insuring and operating, it might be desirable to stop and consider briefly the purpose of crop insurance. The farmer's crops are subject to many natural hazards over which he has no control. Often as a result of drought or excessive moisture, of cold or heat, or some other reason, the farmer's crop is lost or severely reduced. Many times the loss of these crops results in financial difficulties even to the extent of having to discontinue farming operations. This is particularly the case where crop failure comes in a series of years, a situation not uncommon and resulting from so-called "weather cycles" about which we know little. Thus the farmer faces many risks in growing crops.

Insurance is a device designed to meet the problem of risks. Crop insurance spreads the losses over many persons exposed to these risks; it spreads the losses over many areas; and it spreads the losses over many years. It makes it possible for the farmer to substitute a regular annual premium cost for irregular losses.

The farmer has a major investment in his growing crops. With our modern commercial methods of farming, the cash costs alone are high. It takes money to buy fertilizer, seed, gasoline, insecticides, irrigation water, and often labor. Many farmers have to borrow to put this investment into the crop. Loss of that investment often means inability to repay the loan. This often exhausts his credit, leaving him without means of financing for subsequent years. Crop insurance improves his credit because he can offer it as additional security and use it to pay off his loan if his crop fails. The farmer who does not have to borrow may be in stronger financial position but he risks the money taken from his reserves to produce the crop. If the crop fails, he must dig deeper into his reserves to produce the crop for the following year. By protecting his investment with crop insurance, he can protect his accumulated reserves.

Crop insurance may be looked at not only as protecting the investment but as stabilizing the income. Persons with highly fluctuating incomes who do not build up adequate reserves must adjust their standard of

living to their income. This is particularly the case of low-income groups who also often have little ability to borrow. Crop insurance assures them some purchasing power every year.

It is sometimes thought that insurance of crops is needed where losses are frequent but of little need where losses are infrequent. It is not the frequency of the loss that measures the need for insurance; it is rather the amount and importance of the amount that is risked. It hurts just as much to lose the investment in producing a crop if you are one who suffers a loss out of a hundred as if you are one out of ten. In fact, where losses are infrequent the insurance protection is quite desirable because the very infrequency of loss makes the premium cost low. It does not make insurance protection unnecessary.

But the benefits of crop insurance extend beyond the farmer. Rural communities are dependent upon farm income for a living. If the farmer can pay his bank loan, his store bill, his doctor bill, etc., and has some money to spend, even though small, stability is added to the income of that rural community. Agricultural income is a factor in national income and any stabilizing factor such as crop insurance has some effect on the prosperity of the country as a whole.

Crop catastrophes have often necessitated government grants, loans, or other assistance to farmers affected thereby. Crop insurance reduces the need for such public relief measures. It enables the farmer to make provision in advance against such emergencies. It enables farmers as a group to build up through premiums a fund to meet these needs.

AMOUNT OF COVERAGE PER ACRE

The amount of insurance per acre differs so widely over the country and for different crops that only general information can be given here with respect to it and something about the method by which it is determined.

The farmer does not have the opportunity to buy any amount of insurance that he may choose, such as is the case within limits for some other kinds of insurance. It is impracticable for a number of reasons for each insured to have a different amount of protection per acre. Consequently, there is generally only one amount per acre available to him although in a small number of counties an option of two amounts is given. Much care is given to the determination of that amount.

There is an important point that should be noted with regard to the amount of coverage per acre. The coverage is essentially a guarantee. Take for example a coverage of 15 bushels. The fifteenth bushel has the least chance to be produced and therefore is the most expensive bushel to insure. The fourteenth has a little more chance to be produced and is a little less expensive to insure. The thirteenth in turn has more chance to be produced than the fourteenth and is less expensive to insure. Following this reasoning, 10 bushels can be insured for a

premium less than two-thirds the premium for insuring 15 bushels, probably for half or less. So while the higher coverages are attractive for the larger protection, the lower coverages are attractive for the lower premium cost.

Since the top part of the coverage is the most hazardous to insure, the Corporation must give much consideration to how high a coverage can be offered under sound insurance. The amount of coverage which can safely be insured for an individual tract of land or land area must, of course, to a certain extent be determined locally. At the same time, it must be subject to control by the Corporation and is in part influenced by legislative controls. The Federal Crop Insurance Act sets two general limits on the amount of insurance. One is that it shall not generally exceed the investment in the crop (per acre) in the general area and the other is that it shall not exceed 75 percent of the average yield for the farm over a representative period of years. Within these limits set by law, methods have been devised for establishing these coverages, giving consideration to the amount which can be insured with safety, the premium costs, the desires of the farmers, etc.

The process begins at the top. County figures are first developed by the actuaries in the headquarters office based, in part, upon Department of Agriculture statistics with regard to the long-time average yield for the county and statistics from various sources regarding the usual investment in the crop in the area. Often, of course, the amount of premium that farmers in an area are willing to pay is a factor in determining the amount of the insurance coverage. After the figure for the county is established, it is sent to the field underwriter, who, with the assistance of local people, makes such variations in coverage as are desirable between different parts of the county. The basic consideration is the productivity of the land. Yield records, soil maps, and other sources of information are used in dividing the county into areas, some with higher coverages than others. The average of the coverages established for the different areas, weighted by acreages in these areas, cannot exceed the county figure established by the headquarters actuaries.

Through this system, effect is given to the knowledge by local people of the different land areas, to the statistical records of past production, to the amount of premium which it is believed farmers are willing to pay, to the general policies of administration, and to the restrictions in the legislation.

The coverages will also often vary with the farming practice that is followed. Land that is irrigated will usually be insured for more than land that is not irrigated. Land that is summer-fallowed will usually have a higher coverage than land not fallowed.

The amount of coverage per acre is not as high on that acreage where the farmer does not complete his crop as it is on the acreage that is harvested. Actually he does not have as much investment in the acreage which is destroyed and never harvested. The coverage is progressive,

increasing by stages throughout the season. These stages vary for the different commodities. One set of stages used in quite a few commodities including wheat is that the amount of coverage on acreage released and planted to a substitute crop will be only half as large as it would be if the acreage were harvested. For any other acreage destroyed and not harvested, the coverage would be 90 percent of the full coverage on harvested acreage. In some other crops, for example cotton, a number of stages of production are established but these depend on the processes that have been completed. For example, in cotton the amount of coverage before the first cultivation is 25 percent of the full harvested coverage. After the first cultivation and before laying the crop by, the coverage is 40 percent. After the crop is laid by and until it is harvested, coverage is 75 percent. There are variations for other crops. The above illustrations, however, point to a principle that is involved and which is used throughout the different types of crop insurance.

PREMIUM RATES

The processes by which the premium rate for any area of land is determined are somewhat similar. Premium rates are established in most cases as an amount per acre. The actuaries at the headquarters office determine what the average premium rate per acre for the county must be. Field underwriters, with the assistance of local people, divide the county into rate areas. In dividing the county into rate areas and establishing the differentials between areas, consideration is given to the risks of production and crop insurance experience of previous years plays an important part. In this process of classifying the land in the county some of it may be classed as uninsurable. To avoid having separate area classifications for premium rates and for coverages, the two classifications are consolidated by subdivision of areas so that all land in any designated area, such as Area 5, will have the same coverage and the same premium rate. This may necessitate having two or more areas with the same coverage but different premium rates, or vice versa. Final approved coverages and premium rates for areas are set up on a table called the "actuarial table" and together with the map of the areas they become the official record of the insurance terms for land in the county. They are kept on file in the county office and are available for inspection by farmers. Thus, the establishment of the premiums for an area, like that of establishing the coverage, reflects the knowledge of local people as well as the statistical record of crop losses and also, of course, is subject to general policy as to the amount of premium.

With regard to the amount of the premium, the Federal Crop Insurance Act provides basic policy. It states that the premium charged shall be such amount as is considered by the Board of Directors to be adequate to meet losses and to establish a reasonable reserve against unforeseen losses. It has been the policy of the Congress, under authorization in the Federal Crop Insurance Act, to provide appropriations for the

payment of operating expenses. Consequently, premium rates have been computed on the basis of the amount necessary to cover only the insurance losses and provide reserves. As pointed out earlier, the Agricultural Appropriation Act for the year beginning July 1, 1954, authorized the charging of the direct costs of loss adjusters for crop inspections and loss adjustment against premium income. Consequently, this represents a change in policy with regard to the Government's contribution toward the crop insurance program and the premium that farmers pay.

Another policy that has been followed has been to adjust the premium costs to the risks of the area so that each county and each state bears its own risks. The original rates were based on estimated losses over a representative period of years from records of production but as time progresses, actual insurance losses are incorporated into the rates so that for most of the insurance at the present time, the premium rate is largely made up from insurance loss experience.

The risks vary so widely by crops, by areas, and by the amount of the coverage per acre, that it is not possible to give any comprehensive picture of the cost of this insurance to the American farmer. For example, county averages for wheat premiums in 1954 varied from less than 60 cents an acre to over 3 dollars and rate area variations were probably wider. Expressed as a percentage of coverage, county figures varied from 3 percent to 35 percent. This reflects the fact that there are vast differences in this country with respect to the productivity and risk in growing wheat. In some areas a farmer may receive protection of $30.00 an acre for $1.50 cost while in other areas a farmer may receive $9.00 an acre protection for $1.50 cost. Wide variations in coverages and rates exist for other crops insured also.

SOME INSURANCE FEATURES

In this section an attempt is made to describe some of the insurance contract provisions other than those described elsewhere in this report. This section must in itself be general and limited to the usual practice because it represents a description of eight types of insurance contracts and these vary somewhat even though they have much in common.

Minimum Participation Requirement

The Federal Crop Insurance Act requires that insurance not be provided in a county unless applications cover 200 farms or, if less than that, that they cover at least one-third of the farms normally producing the insurable commodities and eligible for insurance. A few counties fail to qualify and some even after having insurance for a year or more drop below the qualifying requirement.

Who May Obtain Insurance

Insurance is available only to producers of agricultural commodities. Producers of agricultural commodities are generally owners or tenants. A landlord and his tenant apply for insurance separately and either may insure his share in the crop. In the case of cotton insurance and tobacco insurance, a farm operator may provide the insurance for his share tenants and sharecroppers who farm under his supervision. This insurance must cover all of such persons who share the crop with him. He pays the premium. However, any loss of a sharecropper or share tenant is paid by joint check to both the operator and the sharecropper or share tenant.

Closing Dates

Under each type of insurance or insurance program there are closing dates established after which new applications for insurance in that year will not be accepted. These closing dates precede the usual period of planting and in some cases are considerably in advance of the usual planting dates. The main object of having closing dates (as well as cancellation dates which are explained later) is to get the insurance sold or on the books before much can be known about the conditions for planting and the prospects for the crop. Sometimes the amount of soil moisture or other factors may give a clue as to the chances for a good or poor crop. Without these date limitations many farmers would take insurance only in those years when conditions for planting and crop prospects indicated less than normal chances for a crop. This is referred to in insurance terms as "adverse selection of risks" and the Federal Crop Insurance Corporation attempts to avoid this by early closing and cancellation dates. A recent illustration of what could happen without these dates is found in the report of a State Director in the fall of 1953 about two months after the usual planting date for winter wheat. He said, "It has been very dry recently and the wheat crop is at a standstill. Farmers are coming into the county offices now asking for crop insurance on their wheat. One county told me they had at least fifty farmers asking for insurance in the last ten days." If soil moisture or other conditions become serious before the regular closing date, the taking of applications is sometimes discontinued at an even earlier date.

Continuous Contracts

A farmer has to apply for insurance only the first year. All contracts used are continuous contracts -- they continue from year to year unless canceled by the insured or by the Corporation. Cancellation for a subsequent year must be made before a cancellation date named in the insurance contract. This cancellation date is at least one month, and usually more than that, in advance of the closing date for taking new applications. An insured who cancels his contract may renew his insurance up to the cancellation date but he does not have an opportunity to renew it up to the closing date. In most cases there are changes from year to year in the insurance contract and the insured must be notified of these

by at least 15 days before the cancellation date. This gives him an opportunity to cancel if he does not like the changes in the insurance.

There are some cancellations by farmers every year and some by the Corporation. Most cancellations by the Corporation result from three causes which are (1) the insured is an occasional rather than a regular producer of the crop, (2) poor insurance risk often evidenced by frequent losses, and (3) failure to pay the premium note. In fact, failure to pay debts owed brings about automatic termination of the contract if the debt is not paid in full by a specified date.

The use of the continuous contract makes it unnecessary to sell all of the insurance every year. From the Corporation's point of view it is the most economical method and in addition adds stability to the volume of business because each year there is a backlog of carryover business. For the farmer it avoids the need of applying for insurance each year and the care needed that this matter is not overlooked. It encourages the practice of carrying insurance every year which is the only way to be sure that you are protected when the loss does occur. These benefits are accomplished by the continuous contract, yet the farmer and the Corporation are committed for only one year at a time.

Acreage Reports

One of the most vital requirements of the insurance contract is the requirement that the insured file an acreage report promptly after completion of planting, showing the location and amount of acreage and his share in the crop. This report is the basis for the premium charged and the amount of insurance. The collection of all of these reports, made promptly and accurately, is a big feature of the crop insurance work. The available time for this work is short; many crops have a growing season of 90 to 100 days. To have an unbiased report, the report should be made before the condition and prospects of the crop become known; otherwise, the prospect for the crop may influence the reporting. The human tendency to delay in making this report and the tendency to err in its preparation create many problems.

Persons who fail to report their acreage and interest (or who under-report it) until the crop is damaged, cannot be given the opportunity to rectify the failure or error at that time. To permit this would allow persons to decide on the amount of the insurance after loss became apparent or probable. The contracts provide that if the report has not been made within a specified time, the acreage can be excluded from the insurance by the Corporation and this practice is followed if the crop is damaged. Also, if the acreage or share in the crop is underreported and this fact is not disclosed or the error discovered before the crop is damaged, the insurance will not be increased. Then if there finally is a loss, the insured is paid an indemnity on a proportional basis, depending on the part that he reported.

Where an insured or applicant desires or is required to pay his premium before he has planted, he submits a report of the acreage he intends to plant to be used as a basis for his premium. He is given the opportunity

for a short time after planting to revise these figures. This method of submitting acreage reports is also sometimes used under other circumstances where the prompt filing of the report is necessary before actual planting figures are available.

Replanting

Part or all of the acreage of the crop may have to be planted more than once, as sometimes the first planting does not produce a "stand." The farmer is expected to replant his crop while it is practical to do so and if he does not, the acreage will not be considered as insured.

Insurance Period

If there is an insurance contract, the insurance takes effect upon the planting of the crop and continues in effect until the crop is harvested, or removed from the field unless this is later than a specified date which is after the usual harvest time.

Assignment to Creditors

All Federal crop insurance contracts contain a provision whereby the insured may make an assignment to a creditor. In such circumstances if a loss occurs the indemnity for the loss is generally paid by joint check to the farmer and the creditor who has the assignment. This provision of the insurance contract has helped farmers to improve their credit. It is widely used in some areas while little used in others. In fact, in some areas it has probably been the motivation for many farmers taking crop insurance. Creditors who are given assignments may be landlords, bankers, machinery merchants, etc.

Fixed Price

Most of the types of insurance used by the Corporation provide that the insurance for each year shall be based on a pre-determined fixed price that year for the commodity. This means that the premium, if stated in physical units, will be converted to dollars on the basis of this price and that any indemnity, computed first in physical units, will be based on this price. As pointed out in the illustration in the introduction, certain types of contracts provide slightly different mechanics. If the amount of the coverage is in dollars, the fixed price is used as a basis for valuing production. In determining this fixed price, the objective is to get as close as possible to the market price for the season when the insured crop is sold. Yet this price has to be fixed considerably in advance of planting time. In many years the legislative basis for support prices on certain commodities has been known at the time and this has been a help in fixing a price for the year for insurance purposes. As of the present time, the fixed price method is used in all except tobacco insurance and citrus insurance, which are described later.

Quality Protection

The insured may suffer a loss in quality as well as a loss in quantity. A loss in quality will generally be reflected in the price at which the product can be sold on the market. There are a number of methods in the different insurance contracts by which this type of loss is reflected in computing the combined loss of quantity and quality. Essentially, these methods are to value the damaged production at a lower value than other production. In the case of corn insurance the fixed price is used to value any of the corn produced that meets or can be made to meet the quality requirements for a Commodity Credit loan but any lower quality corn is valued at the highest price obtainable. For example, if the fixed price of corn is $1.50 but a farmer's frozen corn is worth only 50 cents a bushel, then the corn would be valued at 50 cents instead of $1.50. It would take three bushels of this type of corn to equal one bushel of the corn that would be valued at $1.50. If the frozen corn is valued at 50 cents a bushel, the value of his total production would be much lower than if his corn were all good quality and of course his indemnity would be higher. In the case of some bean insurance the fixed price for valuing production is not one price but a schedule of fixed prices for the different grades. Thus lower quality production is valued lower.

There are variations from these methods for wheat, cotton and tobacco. 1/ It should be noted that losses of quantity and quality are not settled separately but are woven together so that production of a high yield will tend to offset loss from poor quality. Loss in quality may hurt the farmer as much as loss in quantity of production and its inclusion in the insurance protection is important. Quality protection was not given in the early years of Federal crop Insurance; it has been added only as workable methods have been developed. There are a few commodities in the multiple crop insurance for which no quality protection has as yet been provided.

The Insurance Unit

The area of land taken into consideration in determining a loss is an important factor. Farmers will have in most years some areas of poor production and some of good production. Looked at from the point of view of that part of the acreage with poor production there may appear to be a loss while overall there might be little or no loss, the good production in some areas tending to offset the poor production in others. This balancing of good and poor production is more likely to occur on large acreages, and particularly widely separated tracts, where variations in soil, weather and timing of operations may cause differing crop results.

Since the area taken into consideration in determining a loss is so important with respect to the amount of loss (or even the existence of any loss) this area has to be defined in the insurance contract and is known as the "insurance unit." While there is some variation in the

1/ See later subsection on tobacco insurance.

different kinds of Federal crop insurance contracts the most common basis is as follows: (1) All the acreage in the county in which an insured has 100 percent interest in the insured crop is one insurance unit. (2) All acreage in the county owned by the insured and rented to one share tenant is an insurance unit. (3) All acreage in the county owned by one person and operated by the insured as a share tenant is an insurance unit. (4) In the case of cotton insurance, a sharecropper's acreage is a separate unit, as far as his insurance protection is concerned.

Because the area of the insurance unit is so important it has been a subject of much controversy since the beginning of the insurance. In the early years of Federal Crop Insurance, the farm was generally the insurance unit. Acreage that constitutes a farm is often very difficult to determine. Farmers often have tracts of land that are separated and these may have been separate farms in the past but with modern movable machinery, these tracts may be operated as one unit. To attempt to break them down for insurance purposes, as was done in the early years of the insurance, tends to move in the direction of field insurance.

It may seem inconsistent with this combining of county-wide operations into one unit to make separate units on the basis of sharing the crop with different people. Probably the most important reason for this is to provide both the landlord and the tenant with the same basis for determining loss. An illustration may help to explain this: Suppose that A owns and operates a farm and also rents some additional land from B. B's only land is the land rented to A. If both A and B were insured and there was a loss on the rented tract, A and B under the present system would receive similar indemnities varying only with their percentage share in the crop. However, if all of the land farmed by A was one unit, it is conceivable that good production on his own land would offset the loss on the rented land so there would be no indemnity paid to him but there would be an indemnity paid to B. In that case, A probably would be a dissatisfied insured.

The present definitions of an insurance unit are certainly not entirely satisfactory. Still, at the present time they seem to be the best compromise basis to meet the various objectives.

ADJUSTMENT OF LOSSES

The adjustment of losses is extremely important. Properly carried out, it can contribute to a workable system of insurance. Improperly carried out, it alone can bring about failure for the system.

The adjuster's duties are many and his methods are varied. Early in the season he has to inspect damage and often decide whether or not to release the acreage. He makes some inspections throughout the season. After harvest he has to adjust the losses. In doing so he must determine that the loss occurred from a cause insured against and not for some other reason such as poor farming practices. He has to determine the acreage often

requiring measurement. He has to inspect the acreage to see that it was harvested properly and to see if there is any evidence of lack of care. He may want to compare the results from the insured farm with those of adjacent farms and he may want to make other inquiries. He has to appraise any production left in the field or unharvested. He has to determine the production that was harvested.

In determining production the real problem is to find all of it since failure to account for all of it means overpayment for the loss. The adjuster usually measures the harvested production stored on the farm and gets records of sales. But this alone is not enough. Some of the production may have been fed to livestock before he arrived. Sometimes part of it may have been sold to an undisclosed buyer or delivered to a different place. Occasionally the farmer fails to report it all unintentionally; there are occasions where the farmer does not report it all intentionally. It is the adjuster's job to be certain that nothing is overlooked and to satisfy himself that he has found the total production.

The adjuster's work requires much skill and judgment. Adjusters are farmers or persons who have been farmers. This is the basic knowledge. When first hired they are given training in the crop insurance and methods of adjusting. Sometimes an adjuster serves only one county but it is also common practice to use them over a territory larger than one county. Their work is supervised and "spot-checked." Only by experience does an employee become a good adjuster. The Corporation has many adjusters who have performed this work for years. As ability is developed, they are usually given greater responsibilities, such as training and supervising new adjusters, handling especially difficult cases, making investigations, working over wider territory in their own state and sometimes temporarily in other states.

THE PREMIUM

In submitting an application for insurance, the farmer signs a note agreeing to pay the premium each year. In certain instances, payment on an estimated basis is required or perhaps a co-signer may be required on the note. After the acreage report is submitted, the premium for the contract is computed and the insured is billed for the amount.

The premium rate is based on land characteristics and is applicable by areas but a farmer's ability and farming habits also have an effect on the chances for loss. To reflect this in the premium cost to the farmer, a discount is given for good experience. Two methods are used. One provides that if a farmer has had insurance for seven consecutive years without a loss that he will have a 25 percent reduction in premium. Associated with this is an alternative provision in some types of insurance which provides that when the premiums paid by a farmer on crops insured continuously year after year exceed indemnities paid to him by an amount as large as the full coverage on the crop, he will have a reduction of 25 percent in the premium. (In the case of wheat, it is

50 percent). This provision is an alternative to the one described above for seven years without a loss; both are not given together.

In some of the insurance a discount is given for large acreage in an insurance unit. This is to recognize in some measure the greater diversification of risk that tends to exist on large acreages due to greater variations in topography and soils and to different weather at different locations. Many of the larger acreages insured are often in separate tracts and this increases the diversification of risk.

Numerous things are done to effect the collection of premiums. Farmers are billed for the premium as promptly as possible. The billing represents a discounted premium and any premium not paid by the discount date (near the end of the season) is increased by 10 percent. The premium can often be deducted from payments made to farmers for commodity loans or conservation payments. If a farmer doesn't pay for his insurance he is unable to get insurance in subsequent years. Interest is charged on unpaid balances. When other methods fail a farmer may be sued for the premium. The proportion of premiums that finally fail to be collected is small.

How much premium does a farmer pay? The average for the country in 1952 was $75.65. But there is a wide variation between farmers and even between areas. Generally in the eastern part of the country where the farms are smaller and risks are lower, the premiums are smaller than in the west. The average tobacco insurance premium for Tennessee was $13.39 in 1952 whereas the average wheat premium in Montana was $544.71; these figures are near the extremes rather than representative of the eastern and western parts of the country. There is a minimum premium charge which is $10 on some crops and $5 on others.

DEVIATIONS FOR MULTIPLE CROP, TOBACCO, AND CITRUS INSURANCE

Multiple Crop Insurance

The multiple crop insurance is a type in which insurance protection is offered on a group of crops rather than a single crop. In each county where this insurance is offered, certain specified crops are insured. An insured is covered on any of these that he plants in the county. His coverage for all these crops is combined and if the value of the production (based upon fixed prices) of all these crops combined is less than the combined coverage an indemnity is due. This then combines the risk on a number of crops, such for example as wheat, corn, soybeans, oats, and potatoes. Since these crops are in part subject to different risks, and good production of one will offset poor production of another, the loss on the combined crops usually is less than the sum of the losses on separate crops. For this reduction in risk carried by the insurance the farmer receives a reduction in his premium for diversification of risk. The object is to provide more complete insurance for the farm operations as a whole.

There has been substantial demand for an option whereby losses would be determined and settled separately on each crop. This is being tried in two counties on the 1954 crops and will be tried in a number of counties on 1955 crops. The premium cost to the farmer for this type of insurance will be much higher than for the regular multiple crop insurance because the reduction of premium for diversification of risk as described in the preceding paragraph will not apply.

Many different kinds of crops are insured somewhere under multiple crop insurance. In 1954 there were 38 different crops insured although some of them were insured only in one county. The names of the various crops being insured are shown below:

Grains
- Barley
- Corn
- Grain Sorghum
- Oats
- Rice
- Rye
- Wheat

Foods
- Beans (dry edible)
- Cabbage
- Corn, sweet
- Eggplant
- Onions (dry)
- Peas (canning)
- Peppers
- Potatoes, Irish
- Snap Beans
- Sugar Cane
- Sugar Beets
- Sweet potatoes
- Tomatoes

Oil
- Flax
- Soybeans

Seeds
- Alsike Clover
- Crimson Clover
- Lespedeza
- Red Clover
- Ryegrass
- Vetch

Hay
- Alfalfa
- Clover
- Lespedeza
- Red Clover
- Tame Hay
- Vetch

Other
- Cotton
- Tobacco
- Corn ensilage
- Sorghum ensilage

Tobacco Insurance

Quality is an extremely important factor in the production of tobacco. The loss from poor quality may be far more important than the loss in quantity, although both types of losses are often found together.

In the insurance of most other crops, production is valued at a fixed price except in the unusual case where some factor has materially damaged the quality. The tobacco crop off any acreage normally consists of tobacco of varying quality with a wide range in value. Most tobacco is sold in an auction market where bids are made on each basket. The price at which the tobacco is sold reflects in large measure its quality. Some baskets may sell at ten times as much per pound as others. Under these

circumstances a single fixed price per pound would not be very satisfactory for insurance purposes. So in tobacco insurance the production is valued at the price it is sold (with minor exceptions). Thus if the general quality of a farmer's crop is unusually low -- perhaps an unusually large proportion of low grades -- this poor quality will be reflected in the price at which it is sold and consequently in the indemnity.

While the price at which tobacco is sold is related quite closely to the quality, it also is affected by the level of the general market price for tobacco of that type. To exclude payment of indemnity for decline in general market values -- not quality factors -- several methods are used. Under one method the coverage is established at the beginning of the growing season only in pounds; it is converted to a monetary coverage after the marketing season is over on the basis of an average market price for that type of tobacco. This may be an approximate figure determined before the markets are closed. Thus if a farmer's coverage were 1,000 pounds the coverage in dollars at an average market price of 40 cents would be $400. If he produced 1,000 pounds and sold it in the auction market for $300 his loss under insurance would be $100. This loss was due to the fact that his tobacco sold for 10 cents a pound under the market average for that type of tobacco and was probably due to poor quality although certain other factors may be involved. Had he produced less than 1,000 pounds and sold it at an average price of 30 cents his indemnity would have been larger and due partly also to loss in quantity.

The plan described in the preceding paragraph was the first one used in tobacco insurance. Later to meet the desire for a coverage fixed in dollars at the beginning of the season a different plan was used in some counties. The coverage was set in dollars at the beginning of the season but was low so as to minimize any price risk. This was originally named "investment insurance." A more recent modification has been to provide a higher level of such insurance (expressed in dollars at the beginning of the season) but with a provision that if the average market price should turn out to be lower than a price considered in setting the coverage that a somewhat parallel reduction would be made in the amount of coverage.

Since tobacco losses cannot be determined until after the insured tobacco is sold and after the general average market price can be determined, it is obvious that adjustment of losses cannot be performed immediately after harvest as for other crops. In fact the production process for tobacco does not end upon harvest. The green tobacco plants or leaves are hung in the barn and are cured by air or by the application of heat. Insurance on other crops terminates upon removal from the field, but insurance on tobacco continues while in the barn.

There are some other differences between the tobacco insurance and insurane for other crops, but the above are the major differences.

Citrus Insurance

Citrus insurance is a relatively new experiment now in its third year and is confined to two counties in Florida. This is the Corporation's only insurance of tree crops. Insurance of tree crops presents some different problems than insurance of field crops. Several features made it undesirable to attempt to insure citrus under the usual plan for field crops. In the first place, the potential production of the citrus tree varies with its age and this would create a problem in establishing coverages related to the productivity. At present in field crops the coverage is established by areas and such would be impossible with citrus because of the varying age of the trees. Another difficulty is the fact that the productivity of the trees varies not only with the care given to them during the current year, but with the care given to them during preceding years and even as a result of damage from weather in previous years.

Since the citrus people involved were primarily interested in protection against hurricane and freeze, it seemed desirable to limit this insurance to a few specific risks. These include hurricane, freeze, and hail, the hail being a relatively minor risk. Loss is determined on the basis of the percentage of damage to the crop. This is possible because the citrus fruit is in existence on the tree before these hazards occur. The hurricane season, for instance, begins in late July or August. It is then possible to tell what percentage of the fruit are blown off the trees. This situation is quite different than insuring a wheat crop against drought where the wheat may never make a "stand". Under such circumstances it is not possible to use the percentage of damage method.

Since citrus insurance covers only three specific risks and there are years when none of these risks materialize into damage, it is to be expected that there will be years with no losses at all and probably other years with serious losses. While this is occasionally the case with field crops under the general "all-risk" policy, it is the exception rather than the rule. Thus in citrus insurance, even more than in all-risk insurance for field crops, the insurance function is primarily the distributing of losses over a period of years.

HISTORY OF FEDERAL CROP INSURANCE

The Federal Crop Insurance Act was enacted in 1938. This action followed a long period of frequent and severe droughts in the 1930's. There was no private insurance available on crops except against hail damage and in some areas fire damage. The original Act provided only for the insurance of wheat. Wheat insurance was started on the 1939 crop and was in operation for three years when cotton insurance was added. Losses in the early years were heavy with losses exceeding premiums on both wheat and cotton in each of the first five years, 1939-1943. Heavy wheat losses, for example, occurred due to droughts in the southern half of the plains states in 1939 and 1940 and to widespread winterkill in 1941. However, part of the excessive loss can definitely be attributed to the fact that there were defects in the insurance and it took some years before these could be corrected.

Some of the early features of the insurance which have been changed since then as a result of experience are given below. Some of the changes were primarily to improve the soundness of the insurance; others were primarily for simplifying and improving the operations. The farmer had the option of insuring either 75% or 50% of the long-time average yield on his farm. Most of the insurance was written for 75%. Since 1948 the insurance has also been restricted generally to the investment in the crop in the area and this has brought about more conservative amounts of insurance per acre. Furthermore, during the early years an insured was paid losses on the basis of this coverage of 75% or 50% of the average yield even though his crop failed early in the season. Today the amount of protection is progressive as the crop advances during the season. In the early years not only the coverages but the premium rates were established on individual farm rating. This proved cumbersome and unsatisfactory for various reasons. The area method described earlier replaced this method. Closing dates for applying for insurance were not generally as far in advance of the planting season as they have been in recent years. Insurance contracts during the earliest years were annual contracts necessitating writing all the insurance every year. There was no minimum participation requirement for a county in the earliest years and in many counties there were only a few contracts. Insurance was sold in a great many counties even though there was little wheat or cotton produced there. In recent years counties selected for insurance purposes have been counties where the crop insured provides a substantial part of the farm income. During the early years of the insurance there was less centralized control of the adjustment of losses than there has been in recent years. Prior to 1945, loss adjustment was the responsibility of the local committee; since that time, loss adjusters directly responsible to the Corporation have performed this important function.

The original concept was one of insurance "in kind" to avoid price risks. A few premiums were paid in wheat and, during the first year, warehouse receipts for wheat were given for indemnities. As time progressed this grew into a system whereby the farmer paid his premium in cash at current values and the Corporation bought wheat or cotton with the funds. Indemnities paid farmers were in cash at the current value of the wheat or cotton due him and wheat or cotton in the reserves was sold to provide the funds. The buying and selling of wheat and cotton became essentially a hedging operation to protect the Corporation against price changes between the time of establishing the price basis for premiums and the time of establishing the price basis for indemnities. The period when this method was used was a war and early post war period with generally rising prices between premium and indemnity times. At the end of this section there is a table of experience which has a column showing a substantial net profit from purchase and sale of commodities. This should not be considered a source of income independent of the insurance operations but rather as an offset to the indemnities which are higher than they would have been had prices not been rising. Under the present method of using a fixed price each year for both premiums and indemnities, the hedging operations are no longer used.

As a result of the heavy losses in the first four years the appropriation in the summer of 1943 provided sufficient funds only for liquidation. There was no insurance on 1944 crops nor on the 1945 winter wheat crop planted in the fall of 1944.

By action of new legislation near the end of 1944, the crop insurance program was revived and flax was added as an insurable crop. This legislation also provided for experimental insurance on other commodities in not more than 20 counties for each. The legislation was passed in time to insure spring planted crops for 1945. These covered spring wheat, cotton and flax. In addition, small experiments were started on corn and tobacco. With the revival of insurance in 1945 a number of changes were made that helped to improve the insurance. These included the adoption of a coverage that was progressive during the season and adjustment of losses by direct representatives of the Corporation.

As a result of the new legislation and other changes made in the insurance and its operation the financial experience improved greatly on wheat and the experience on flax, tobacco and corn was quite satisfactory. However, large losses occurred on cotton insurance in 1945 and 1946, primarily as a result of droughts in the southwest. By the end of 1946, over three-fourths of the original capital of $100,000,000 had been lost. However, a profit of about $8,500,000 was made in 1947 recovering part of these losses, but not before the Congress had reviewed the operations in the light of the 1945 and 1946 experience and had decided to reduce the program to more of an experimental basis. Insurance was authorized in only a limited number of counties. There were 200 wheat counties and 56 cotton counties and a smaller number of counties for the other crops. Provision was made that insurance should not exceed generally the investment in the crop in the area. While the number of counties was restricted, the Congress indicated that this experimental period should be used to develop insurance for other types of crops so that when the insurance was offered again in some of these counties, it could be offered not necessarily on wheat or cotton but on the crops that provided the major source of income for the farmers there. Since then insurance has been started on beans and citrus fruits and with the multiple crop insurance started in 1948, insurance has been applied to many different crops.

This limited and experimental approach went into effect beginning with the 1948 crop. There were 375 county programs whereas in 1947 there had been over 2400 such programs. Consequently, a new period in the history of the Corporation was begun at that time and present published reports do not carry the record back beyond 1948. The table on the following page shows the financial experience before and after 1948.

The insurance experience since 1948 has been more satisfactory. Insurance operations since that time might be considered as more intensive rather than extensive operations. Congress on several occasions has reviewed the program and has authorized gradual expansion of the number of counties where insurance is offered.

When the legislation was amended in 1947 the Corporation was authorized to reinsure private companies with respect to similar insurance. Since private insurance companies were not writing this kind of insurance, operation of this provision depended upon the entrance of private companies into this field. While there has been some consideration of this by a few companies and some discussions of reinsurance there has been no operation under this provision.

SUMMARY OF INSURANCE OPERATIONS
FOR CROP YEARS 1939-1953
AS OF JUNE 30, 1954

Crop Years 1939-1947

	Premiums	Indemnities	Profit or Loss From Sale of Commodities	Surplus or Deficit
Wheat	$78,617,126.10	$98,652,635.42	$12,645,371.22	$-7,390,138.10
Cotton	46,685,456.91	111,568,288.09	-573,664.33	-65,456,495.51
Flax	6,162,184.01	4,725,305.60	110,500.00	1,547,378.41
Corn	1,193,646.47	1,896,626.08	--	-702,979.61
Tobacco	2,178,064.60	1,563,416.45	--	614,648.15
Total 1939-47	134,836,478.09	218,406,271.64	12,182,206.89	-71,387,586.66

Crop Years 1948-1953

	Premiums	Indemnities	Profit or Loss From Sale of Commodities	Surplus or Deficit
Wheat	$63,915,648.23	$62,818,826.57	$206,043.75	$1,302,865.41
Cotton	11,928,331.03	14,445,971.21	--	-2,517,640.18
Flax	4,714,886.74	2,962,753.61	--	1,752,133.13
Corn	5,839,697.95	4,264,008.15	--	1,575,689.80
Tobacco	8,004,247.38	7,504,168.13	--	500,079.25
Beans	848,337.91	1,108,750.05	--	-260,412.14
Multiple	10,254,068.56	14,986,170.95	--	-4,732,102.39
Citrus	200,292.97	2,417.55	--	197,875.42
Total 1948-53	$105,705,510.77	$108,093,066.22	$206,043.75	$-2,181,511.70

- - - - - - - - - - - - - - -

CAUSES OF LOSS

Most Federal crop insurance covers essentially all natural hazards. The following table shows the causes of the losses for which indemnities have been paid. Every time a loss is adjusted the adjuster estimates the percentage of the damage due to various causes and the following table is a compilation of that information. For wheat, which was started in the early years, the tabulation shows a long-time picture. For most commodities, the period covered is only 1945 to 1952 and for beans it is 1948-1952. The longer the period the less is the chance of the data being unduly influenced by severe losses of some type in one particular year.

CAUSES OF LOSS *

Cause	Wheat 1939-52	Cotton 1942-52	Corn 1945 - 1952	Tobacco 1945 - 1952	Flax 1945 - 1952	[illegible] 1948-52
	%	%	%	%	%	%
Drought	45	25	15	29	28	34
Excessive Moisture	5	27	36	18	35	15
Frost, Freeze, Snow			25	6	9	7
Winterkill	15					
Hail	12	5	5	17	9	34
Insects	9	28			4	
Disease				11		3
Flood		3	13		4	
House or Pole Burn				7		
Miscellaneous	14	12	6	12	11	7

* The fact there is no percentage shown for some causes does not mean no loss due to that cause but it is small and grouped with the miscellaneous causes.

- - - - - - - - - - - - - - -

SOME GENERAL ASPECTS

Before completing this description, a few general comments might be helpful to cover certain gaps in the preceding description and possibly to clear up some wrong impressions which the reader might have obtained.

Most of the crop insurance is not applied for by farmers coming into the office to ask for it. It is sold by salesmen. There is an expression in the insurance world, "Insurance is sold -- not bought." Perhaps this is because insurance is protection for the future, and for most of us the problems of the future are outweighed by the problems of the present. When some situation arises such as a prolonged drought and shortage of soil moisture many farmers would, of their own accord, apply for insurance if it were available at the time. But under ordinary circumstances, most of the crop insurance has to be sold by actual solicitation of the business.

While there are approximately 400,000 farmers carrying Federal crop insurance, there are not an equal number of independent separate risks. The same catastrophe that affects one farmer will often affect many. The drought that strikes the southwest plains area affects the wheat crop of many insured farmers. The heavy boll-weevil infestation that affects one cotton farmer will affect many farmers. It is true there are circumstances on individual farms that may cause losses and there are local weather factors such as showers that affect small areas. but on the whole there are far fewer risks in number than the number of policyholders.

Because of the fact that crop insurance is subject to widespread crop catastrophes, it is the very nature of the insurance that in some years the losses will be much heavier than in others. In some years there will be a deficit; in others, a surplus. This is shown by the table of loss ratios that follows. The loss ratio is the ratio of indemnities to premiums and indicates what part of the premium was needed to pay indemnities. In years with loss ratios below 100 some surplus is built up. In years with loss ratios over 100 there is a deficit. This is well illustrated by the corn experience as shown in the table. In four of the six years the losses took only one-fourth or less of the premiums. But in 1951 losses were very heavy. Over the six-year period with an average loss ratio of .73 there was some surplus.

LOSS RATIOS - 1948-1953

PROGRAM	CROP YEAR						
	1948	1949	1950	1951	1952	1953	1948-53
Wheat	.58	1.45	.51	1.06	.85	1.25	.98
Cotton	.43	1.97	2.80	.82	.44	1.04	1.21
Multiple	.06	.16	.93	1.65	2.33	.91	1.46
Tobacco	.43	.66	.61	.49	.79	1.90	.94
Corn	.17	.16	1.23	2.38	.25	.17	.73
Flax	.51	.62	.41	.49	.79	.95	.63
Bean	.29	.64	1.81	3.14	.55	.62	1.31
Citrus				0	.04	0	.01
All Programs	.53	1.32	.90	1.12	.97	1.15	1.02

Although the tendency to surpluses in some years and deficits in others is most pronounced on individual crops (programs), it should be noted that it also exists for all programs combined. This makes it very difficult to evaluate the success of crop insurance by the surplus or deficit from operations in any one year, or even in a short period of years. A deficit in a single year, instead of reflecting failure of the insurance from a financial viewpoint, may actually reflect the fact that it is functioning properly.

One should not get the impression that the crop insurance program is uniform throughout the country -- an impression that could be gained from a brief description such as has been given herein. The operations are marked by wide diversity, not only between different areas of the country but even between adjacent counties. There are counties where practically all farmers are insured, at least more than 90 percent of them. There are other counties where only 5 to 10 percent of the farmers are insured. There are counties with less than 100 contracts and counties with more than 2,000 contracts. There are farmers who pay a premium of only $5.00 and others who pay thousands of dollars. There are areas where the risks are exceedingly low and there are areas where the risks are exceedingly high. There are areas where heavy deficits have been incurred over the years and also areas where large surpluses have been built up. Thus one should not form the impression from the description that has been given that Federal crop insurance is the same in all places.

It should be kept in mind that the Federal crop insurance program is one which is still experimental and developing. While there are more than one-third of a million farmers insured and the successful carrying out of this insurance is an important end in itself, the objective of developing a sound workable insurance for wider use in the future is of equally great importance. The various types of insurance differ with respect to the extent to which they are approaching this goal. Wheat insurance, for example, covers the majority of the heavy wheat producing counties. The premium volume for wheat represents more than half of the Corporation's premiums and consequently, the total experience in the aggregate is greatly influenced by the wheat insurance experience. On the other hand, the multiple crop insurance is still very much experimental.

Also, one should not get the impression that progress toward these goals is accomplished steadily. There is progress, and then sometimes there are set-backs. A lot of insurance may be sold in a county in some years and then for some reason or other, the volume of business may decline. Progress therefore must be looked at from the long time trend as there are temporary variations up and down.

CONCLUSION

The purpose of this writing has been to describe Federal Crop Insurance, to give the reader a clearer picture of what it is and how it operates. The problem of what to include and what to exclude has been difficult because there are many aspects of the insurance and many factors which are of varying importance in the different parts of the country and for the different crops insured. Intended as a description, it intentionally contains little analysis or evaluation.